GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1165
ANSWERED ON:24.10.2008
PUMPING MONEY IN BANKING SYSTEM
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Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India has taken a decision to pump 84,000 crore rupees into the banking system in the country;and

(b) if so,the details thereof and the reasons in this regard?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a)&(b): Against the backdrop of the sub-prime crisis,the Reserve Bank of India (RBI) initiated a series of meetings with fifteen major banks in the month of September 2007,to assess its impact Oil Danks in India and take necessary remedial measures.Further,to ensure uninterrupted and adequate credit to the productive sectors of economy.Reserve Bank of India (RBI) ` Government have taken some pro-active measures such as-

(i) Reduced Cash Reserve Ratio of the banks by 250 basis points from 9.00% to 6.50% of their Net Demand and Time Liabilities (NDTL)w.e.f. the fortnight beginning 11th October,2008 thereby releasing additional liquidity into the system.

(ii) Issued advisory to banks to allow drawal of the sanctioned working capital limits and term loans to their clients and to consider restructuring the dues of the Small & Medium Enterprises,

(iii) Permitted banks to avail additional liquidity support to the extent of upto 1% of their NDTL w.e.f 17.09.2008,

(iv) Conducting a special fixed rate Repo at 9% per annum against SLR,securities to the extent of upto 6.5% of their NDTL to enable banks to meet the liquidity requirement of mutual funds,

(v) Providing a sum of Rs.25,000 crore as the 151 instalment immediately to the commercial banks, Regional Rural Banks and Co-operative credit institutions under the Agriculture Debt Waiver and Debt Relief Scheme,2008.

(vi) Increased the interest rates on rCNR(l3) and NR(EjRA Deposits w.e.f. 15.10.2008,

(vii) Allowed banks to borrow funds from their overseas branches and correspondent banks upto a limit of 50% of their unimpaired Tier I capital or US $ 10 million,whichever is higher,as against the existing limit 0f 25%.

(viii) In order to alleviate the pressures on liquidity and, in particular,to maintain financial stability,RBI has reduced the Repo Rate under the Liquidity Adjustment Facility(LAF) by 100 basis points to 8.0 per cent w,e.f, 20.10.2008.

RBI would review these measures on a continous basis in the light of the evolving liquidity conditions,and would respond swiftly,and even preemptively, to any adverse external developements impinging on domestic financial stability.